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BENNETT HOLDS HEARING ON YEAR 2000 PROBLEM, SUBCOMMITTEE CONSIDERS LEGISLATION

WASHINGTON, D.C. -- Senator Bob Bennett (R-Utah), chairman of the Senate Banking Subcommittee on Financial Services and Technology, holds a hearing today where the subcommittee will discuss the Year 2000 problem with respect to financial institutions. The subcommittee will discuss legislation it is considering that would, among other things, sanction companies which fail to satisfy their fiduciary duties to customers as a result of negligence in Year 2000 remediation efforts.

Senator Bennett's opening statement follows:

Over the past two decades, computers increasingly have become fixtures in governments, businesses, and households within the United States and throughout the world. We have marveled at the way computers have simplified our lives by calculating interest in seconds, storing voluminous records in the smallest of spaces, and enhancing communication techniques.

With the end of the 20th century fast approaching, however, computers threaten for the first time to make life more difficult. The Year 2000 problem -- or the inability of computers to recognize dates beyond 1999 -- could cause computer systems throughout the world to make major mistakes or shut down completely. Many business people, who once dismissed the problem as a simple computer glitch, are taking the issue more seriously after attempting to find a simple solution.

Still, there is a great deal of uncertainty about the extent of the Year 2000 problem and the effectiveness of remediation efforts. While some national publications like *Newsweek* magazine have referred to January 1, 2000 as "the day the world shuts down," other experts suggest that reports of potential disasters on that date are overblown and that the date change will have no significant impact on the world. We hope to make some progress on that issue today.

Nevertheless, business leaders throughout the world must take the issue seriously and consider the effect of the Year 2000 problem on their particular department, division, company or government if a computer fails to recognize dates after December 31, 1999. The Year 2000 problem is precisely the type of seismic

event that could shake the foundations of modern business and government. Businesses that fail to properly correct their systems could be committing corporate suicide. At best, these companies will incur extensive liability as a result of their failures, and at worst, could be eliminated altogether.

Recent events have demonstrated that even a modest system shut down has the potential to have a devastating impact. Earlier this year, the Belgian stock market was closed for two days when its new computer trading system began processing 1997 trades under a 1996 date. One year ago, a small computer program trying to stuff a 64-bit number into a 16-bit space caused a \$7 billion European Space Agency rocket to explode less than a minute into its maiden voyage.

The financial services industry is particularly susceptible to the Year 2000 problem. The industry uses computers to calculate interest and mortgage payments, process stock trades, and access account information. Without reliable systems to do this work, interest could be miscalculated, stock trades could vanish, and customers could have difficulty accessing their account balances or their credit cards. The financial services industry must also recognize that the Year 2000 problem presents business risks that go far beyond the task of correcting their own systems. The financial services industry is so interconnected that systems failures by other businesses, including their customers and vendors, could present significant business risks. Banks could incur significant credit risk if their borrowers' systems fail. Securities firms could fail to execute trades as a result of a flaw in a counterparty's system.

The financial services industry must also deal with perception risk. Even if all the computer systems are in working order by the end of 1999, consumers may feel threatened by the uncertainty associated with the date change. This could result in excess withdrawals from financial institutions or a sell-off on Wall Street. Consequently, the financial services industry must work to develop a comprehensive remediation and testing effort to convince consumers of the integrity of the system.

We are here today to listen to testimony from experts in this field with the goal of making a realistic assessment of the Year 2000 problem, evaluating the progress of the financial services industry in managing the risks associated with the problem, and determining what the government can do to further this effort. ***The Subcommittee is considering legislation that would, among other things, sanction companies that fail to satisfy their fiduciary duties to customers as a result of negligence in Year 2000 remediation efforts.***

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